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GPO RESPONDS TO SECOND WASHINGTON TIMES STORY (3-27-08)

In coordination with the State Department and the U.S. intelligence community, GPO conducted a Request for Proposal (RFP), under GPO's procurement rules and regulations, to procure the required bio-metric components to build an e-passport. GPO incorporated The Buy American Act in accordance with MMAR-52-225. Those responding to the RFP all submitted Buy American Act certificates. However, many companies were able to achieve Buy American Act certification due to their North American subsidiaries. There were no U.S. companies who manufactured integrated circuits that met ICAO standards and/or rigorous testing. During the vendor selection process, GPO and the State Department vetted the limited number of qualified vendors through rigorous security audits. Those audits included inspections of facilities and employee background checks. GPO was shocked to learn no U.S. company manufactured an integrated circuit that met the ICAO standards and/or rigorous testing. Since 2004, GPO has encouraged U.S. companies to consider producing ICAO compliant components.

Bonuses

GPO began the process of establishing goal based performance plans five years ago, before the production of the e-Passport. There is no correlation between the two programs. These plans enable employees to earn bonuses based on performance of the agency as a whole, and on the individual employee's ability to satisfy his or her performance goals.

In 2003, GPO was an agency that was losing significant amounts of money and was, by most objective measures, underperforming. Performance awards had not been given to employees for more than a decade. In order to help turn the agency around, senior management began by initiating a time-off award incentive program in 2003 for all employees. This initiative was followed in 2004 with an agency wide goal sharing program that was designed to allow employees to benefit if certain agency goals were accomplished. This program has been very successful, and there have been cash payouts every year to all employees except our senior managers who are excluded from this program.

During 2004, management worked with officials from GAO to develop a goal based performance approach that would serve as the primary management vehicle to turn the agency around through the use of objective measurable goals tied to the agency's newly developed strategic vision. Human Capital staff also consulted with OPM staff in order to ensure that our new system represented government "best practice." The resulting system was designed around the concept of cascading these goals from the top. For this reason, it was recommended that the first phase of implementation should be focused on senior management. That phase was successfully

NewsRelease

implemented. Managers who were able to accomplish these goals did receive cash performance awards for the goals met, and the overall agency results reflected these improvements.

The average award in this program is less than the average received by senior managers across the Federal Government. The second phase of the performance management system was implemented last year, and the third and final phase is on schedule for negotiation with GPO unions and expected to be implemented this year.

It is common practice for Executive and Legislative branch agencies to have goal based performance plans. The four top officials at GPO during this time the Public Printer, the Deputy Public Printer, the Chief of Staff and the Deputy Chief of Staff have not been and will continue to be ineligible from receiving any cash awards.

Financial Audit

As required by Title 44, GPO undergoes an annual audit conducted by an independent firm. As part of every annual audit, GPO management, which includes the General Counsel, is required to make certain written representations ensuring the agency is in compliance with laws and regulations.

Title 44, Section 309:

(d) The Inspector General of the Government Printing Office shall audit the financial and operational activities of the Government Printing Office each year. The audits shall be conducted under the direction of the Joint Committee on Printing. For purposes of the audits, the Inspector General shall have such access to the records, files, personnel, and facilities of the Government Printing Office as the Inspector General considers appropriate. The Inspector General shall furnish reports of the audits to the Congress and the Public Printer.

(e) The Public Printer shall prepare an annual financial statement meeting the requirements of section 3515(b) of title 31, United States Code. Each financial statement shall be audited in accordance with applicable generally accepted Government auditing standards--

(1) by an independent external auditor selected by the Public Printer, or

(2) at the request of the Joint Committee on Printing, by the Inspector General of the Government Printing Office.

(f) The Comptroller General of the United States may audit the financial statement prepared under subsection (e) at his or her discretion or at the request of the Joint Committee on Printing. An audit by the Comptroller General shall be in lieu of the audit otherwise required by that subsection.

NewsRelease

Secure Production Facility

There was a challenge of how best to meet the security requirements of the post 9-11 world in developing a secure production facility for outside of Washington D.C. Our customer, the State Department, joined GPO in planning for another production line of blank passports at a remote facility in order to establish the redundancy of this essential document for the American people. GPO and the State Department developed a list of requirements for such a secure facility. During the investigatory process, GPO did several site analyses for different locations. GPO and the State Department determined Stennis Space Center to be the most secure and cost effective location. GPO received approval to move forward on this project in August 2007 from the Joint Committee on Printing (JCP).

Hurricane Katrina

During the hurricane, Stennis Space Center received minimal damage. The facility served as a safe haven for those seeking shelter from the hurricane. The U.S. government encouraged job growth and new business to help rebuild the Gulf coast region following the devastation left in the hurricane's wake. By locating the facility in this area, GPO will create more than 50 jobs and new business, thus helping the local economy. This is an example of the federal government practicing what it preaches.

Photo

GPO periodically contracts with professional photographers and video services, on the GSA schedule, for official GPO business. That includes: Annual Reports, Agency events Web images, Manager portraits, Stock B-Roll and Brochures.

Executives in the three branches of the government typically get an official portrait taken. GPO commissioned a photographer to take an official portrait of the current Public Printer when he was sworn in. GPO's Public Relations Department hired a photographer on the GSA schedule to take portrait pictures, which are displayed along with the President of the United States at the agency's Washington, D.C. headquarters, 15 regional offices, on the website, in the Annual Report and other official documents. The contract with the photographer also included for taking photos at the swearing in ceremony of the Public Printer with employees, customers and vendors. The photographer charged GPO about \$10,000 for both projects. The contract included copyright, which was the bulk of the cost, and is a standard practice among photographers on the GSA schedule. The procurement followed proper procedure, which includes a systematic review to ensure the proper use of government funds.

Travel

All GPO travel has been authorized in accordance with government regulations established by GSA. This travel is funded through GPO's operating budget.

GPO is one of the largest printing and information factories in the world. GPO officials from all business units are continuously researching ideas and innovations in order to stay on the cutting edge of new technology for the 21st Century. That requires GPO officials to travel domestically

NewsRelease

and internationally to pursue new manufacturing techniques, participate in conferences supporting the agency's mission of digitizing government documents and meeting with officials from other countries ensuring the interoperability of the e-passport with supporting countries. In addition, overseas travel was necessary to conduct rigorous security audits that included inspections of facilities.

Manufacturing Passports/Security

GPO has been producing passports for the State Department since the 1920s. The manufacturing of passports is conducted in Washington, D.C. at GPO facilities. More than 120 GPO employees work around the clock to produce the document. In addition, GPO's Congressional Oversight Committee, the Joint Committee on Printing (JCP), authorized the agency to begin construction on a second Secure Production Facility in Mississippi, which will also manufacture passports beginning this spring. The paper, covers and manufacturing supplies come from U.S. companies.

GPO had to meet the deadline set in The Enhanced Border Security and Visa Entry Reform Act to produce the e-Passport. Here is the timeline:

2001: The International Civil Aviation Organization (ICAO) sets standards of air travel, including the international standard for interoperable e-Passports.

May 2002: The Enhanced Border Security and Visa Entry Reform Act requires the USA and other countries whose citizens don't need visas for entering the USA to develop electronic passports. The act sets a deadline of October 2004.

March 2004: The Bush administration asks Congress to delay the deadline to October 2006 to allow participating countries more time to address technical issues. Congress agrees.

November 29, 2004 : US Visit and DHS coordinate mock Port of Entry testing at Baltimore airport.

April 2005: The State Department closes comment period, begins to firm up plans for the new e-Passport.

February 27, 2006: State Department starts testing the new passport with diplomats and select government officials.

August 16, 2006: State Department makes e-Passports available to U.S. travelers.

May 2007: The last legacy passport is produced, all passports are now e-Passports.

GPO contracts with two suppliers (Gemalto and Infineon), who produce the chip in the e-passport and who subcontract with another vendor to do the inlaying. That subcontractor is an overseas

NewsRelease

company, who does inlaying and is the only company in the world who met standards required under the RFP. At GPO's urging, the company intends on moving their production plant to the U.S in the near future. This subcontractor met GPO's, the State Department's and the U.S. intelligence community's security standards.

Aside from the fact that we have fully vetted and qualified vendors, we also note that the materials are moved via a secure transportation means, including armored vehicles.

Chip in E-Passport

The e-Passport includes an electronic chip embedded in the cover that contains the same information that is printed in the passport: name, date of birth, gender, place of birth, dates of passport issuance and expiration, passport number and photo image of the traveler.

Price/Production Rates

The current agreed upon price between GPO and our customer (the State Department) for the production of the e-passport is \$14.80 per book. That includes: materials, labor, overhead, required inventory, the secure production facility and future investments. GPO does not have any role in setting the price to the public for a passport, the State Department determines that price.

Not all the expenses included in the price we charge the State Department for passports are booked at the same time as revenue. As a result of Generally Accepted Accounting Principles (GAAP) and our business type accrual accounting, the expenses are not recognized until the investment has been placed into service. There's a timing difference—revenue first, then expenses and not necessarily in the same year.

Last year's Annual Report shows net income from operations. We then show planned uses of net income. This clearly identifies the impact of the accounting rules on the recognition of revenue and expenses.

From GPO's 2007 Annual Report:

In fiscal 2007, the GPO had an overall positive contribution of \$90.9 million which was comprised of \$87.6 million from operations and \$3.2 million from a reduction in the future long-term workers' compensation liability. In fiscal 2006 the total contribution was \$16 million. Approximately \$62 million of the \$87.6 million contribution from operations is for uses that have been previously approved by the appropriate parties. A total of \$39.5 million of the \$62 million relates to capital projects, including the development and fit-out of the new secure production facility (\$27.8 million) and the development of GPO's Federal Digital System (appx. \$11.7 million) which is partially supported by appropriated funds. The remainder of the \$ 62 million, \$22.5 million, is being used to purchase inventory for the production of the the e-Passport.

NewsRelease

The State Department asked GPO to increase the production rate of blank passport books due to an increased demand from the American public. In FY07, GPO produced about 20 million books, a seven million increase from the previous year. GPO and the State Department are still determining the production requirements for FY08.

GPO is unlike most other Federal agencies in that all GPO activities are financed through a business-like revolving fund. The revolving fund functions as GPO's checking account with the U.S. Treasury. The fund is used to pay all of GPO's costs and the fund is reimbursed by our agency customers when they pay GPO invoices.

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